

Message Text

LIMITED OFFICIAL USE

PAGE 01 SAN JO 03738 01 OF 02 122151Z

ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 MMO-01 TRSE-00 COME-00 LAB-04

AGRE-00 INT-05 DODE-00 CIAE-00 NSAE-00 XMB-02

FRB-03 ACDA-07 OPIC-03 OMB-01 AID-05 STR-04 CEA-01

ITC-01 DOTE-00 /060 W

-----004341 122214Z /72

R 122020Z AUG 77

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8419

LIMITED OFFICIAL USE SECTION 1 OF 2 SAN JOSE 3738

E.O. 11652: N/A

TAGS: ECON, XM, CS

SUBJECT: ECONOMIC ALERT REPORT: COSTA RICA

REF: STATE 180067

1. ALTHOUGH COSTA RICAN EXPORTS HAVE BECOME INCREASINGLY DIVERSIFIED, THE MAJOR ECONOMIC PROBLEM NOW CONFRONTING COSTA RICA DERIVES FROM ITS CONTINUING OVERDEPENDENCE ON EXPORT EARNINGS FROM TRADITIONAL EXPORT COMMODITIES, E.G. COFFEE, BANANS, SUGAR. THE COSTA RICAN ECONOMY IN RECENT YEARS HAS BENEFITTED SUBSTANTIALLY FROM PRICE BOOMS IN CERTAIN COMMODITIES (SUGAR IN 1975, COFFEE COMMENCING IN 1976). THE HIGH LEVEL OF COFFEE PRICES IN 1976/77 HAS HAD A PERVERSIVE ECONOMIC EFFECT SO THAT COSTA RICA CAN BE DESCRIBED AS BEING IN THE MIDST OF AN UNPRECEDENTED COFFEE BOOM. THE INTRINSIC FRAGILITY OF A BOOM UNDERPINNED BY EXPORT EARNINGS FROM A COMMODITY SUCH AS COFFEE GIVES RISE TO SEVERAL PROBLEMS:

-- BALANCE OF PAYMENTS: MOST RECENT CENTRAL BANK PROJECTION OF YEAR-END B.O.P. SURPLUS OF \$113 MILLION IS BASED IN LARGE PART NOT ONLY ON COFFEE PRICES OF \$2.10 PER POUND, BUT ALSO ON
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SAN JO 03738 01 OF 02 122151Z

FOREIGN CAPITAL INFLOW WHICH HAS BEEN ATTRACTED TO COSTA RICA, IN PART, BECAUSE OF COFFEE BOOM. SHOULD COFFEE PRICES FALL SIGNIFICANTLY BELOW \$2.00 LEVEL, B.O.P. PICTURE WOULD BE CHANGED AND PRESENT HIGH IMPORT LEVELS, PARTICULARLY OF CONSUMER GOODS, WOULD NOT BE SUSTAINABLE.

-- INFLATION: POLITICAL INABILITY OF GOCR TO TAX AWAY "WINDFALL" COFFEE EARNINGS FROM PRIVATE SECTOR HAS CONTRIBUTED TO SUBSTANTIAL LIQUIDITY IN THE ECONOMY. ALTERNATIVE EFFORTS TO SOP UP LIQUIDITY, E. G. SALES OF 12 PERCENT COFFEE BONDS AND INCREASED BANK RESERVE REQUIREMENTS, HAVE NOT BEEN WHOLLY SUCCESSFUL. INCREASED CONSUMER GOODS IMPORTS HAVE ALSO RELIEVED SOME LIQUIDITY. IN SUM, HOWEVER, INFLATIONARY PRESSURES CONTINUE TO MOUNT AND THE HIGH COST OF LIVING WILL BE A MAJOR ISSUE IN THE PRESIDENTIAL ELECTION CAMPAIGN.

-- GOVERNMENT BUDGET DEFICIT: REPETITION OF DEFICIT ON SCALE OF 1976 RECORD \$80 MILLION APPEARS LIKELY. PRESIDENTIAL ELECTORAL CAMPAIGN WILL EXERT CONSIDERABLE PRESSURE ON EXPENDITURE SIDE AND, DUE TO INCOME INELASTIC TAX SYSTEM, REVENUES NOT LIKELY TO KEEP PACE WITH EXPENDITURES.

-- GROWTH OF EXTERNAL DEBT HAS BEEN SUBSTANTIAL IN RECENT YEARS AND DEBT TOTALLED \$1.14 BILLION BY END OF 1976. DEBT SERVICE RATION REMAINS HEALTHY (12.1) BUT THIS IS ATTRIBUTABLE IN LARGE PART TO UNPRECEDENTED HIGH COFFEE PRICES.

-- DISTRIBUTION OF INCOME: THOUGH ONE OF THE BEST LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SAN JO 03738 01 OF 02 122151Z

IN LATIN AMERICA, DOMESTIC EXPECTATIONS (STIMULATED BY GOVERNMENT) ARE HIGH. GOVERNMENT MINIMUM WAGE POLICY, AIMED AT INCREASING ABSOLUTE AND RELATIVE INCOME OF THE LOWEST PAID WORKERS, HAS BEEN EFFECTIVE. ALSO, HIGH COFFEE PRICES HAVE BEEN BENEFICIAL TO NUMEROUS SMALL COFFEE LANDHOLDERS. ECONOMIC BOOM HAS ALSO CONTRIBUTED TO HIGH DEMAND FOR LABOR PARTICULARLY IN CONSTRUCTION AND INDUSTRIAL SECTOR. AGRICULTURAL EMPLOYMENT HAS ALSO BEEN STIMULATED BY GOCR BASIC GRAINS POLICY OF GOVERNMENT PURCHASE AT PRICES DESIGNED TO INCREASE PRODUCTION RATHER THAN SETTING ARTIFICIALLY LOW PRICES AIMED AT SUBSIDIZING URBAN CONSUMPTION.

2. OUTLOOK FOR THE NEXT 12 MONTHS: IT APPEARS THAT A CYCLICAL DOWNSWING IN COFFEE PRICES IS NOW UNDERWAY. THE SEVERITY OF IMPACT ON THE LOCAL ECONOMY WILL DEPEND

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 SAN JO 03738 02 OF 02 122145Z

ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 MMO-01 TRSE-00 COME-00 LAB-04

AGRE-00 INT-05 DODE-00 CIAE-00 NSAE-00 XMB-02

FRB-03 ACDA-07 OPIC-03 OMB-01 AID-05 STR-04 CEA-01

ITC-01 DOTE-00 /060 W

-----004234 122214Z /72

R 122020Z AUG 77

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8420

LIMITED OFFICIAL USE SECTION 2 OF 2 SAN JOSE 3738

ON JUST HOW LOW COFFEE PRICES FALL. THE EMBASSY
ANTICIPATES THAT:

-- CONTINUING HIGH LEVEL OF IMPORTS WILL PLACE
SEVERE PRESSURE ON B.O.P. AND INTERNATIONAL
RESERVES WILL DECLINE. IF COFFEE PREICES
LEVEL OFF AT \$1.50 (F.O.B.), EMBASSY ESTIMATES
THAT ADJUSTMENT PROCESS WILL BE RELATIVELY SMOOTH
WITH RESERVES PROVIDING ADEQUATE CUSHION FOR
TRANSITION PERIOD.

-- INFLATIONARY PRESSURE WILL CONTINUE TO MOUNT.
GOVERNMENT SPENDING DURING ELECTION CAMPAIGN
WILL LEAD TO SUBSTANTIAL DEFICITS IN PUBLIC
SECTOR BUDGETS. ABILITY OF ECONOMY TO DIVERT
INFLATIONARY PRESSURES TO EXTERNAL SECTOR VIA
IMPORTS WILL DIMINISH AS COFFEE PRICES DECLINE.
POLITICAL CONSTRAINTS ASSOCIATED WITH ELECTION
CAMPAIGN WILL POSE SIGNIFICANT OBSTACLES TO
IMPLEMENTATION OF ANTI-INFLATIONARY MEASURES.

-- BILATERAL ECONOMIC ISSUES WHICH HAVE BEEN
LARGELY SUBMERGED BY "BOOM" WILL BE BROUGHT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SAN JO 03738 02 OF 02 122145Z

INTO SHARPER FOCUS. DECLINE IN EXPORT EARNINGS
AND CONCOMMITANT B.O.P. PRESSURES WILL RESULT
IN RENEWED ATTENTION ON U.S. IMPORT QUOTA

RESTRAINTS ON COSTA RICAN BEEF EXPORTS. THIS ISSUE, WHILE NOT A SIGNIFICANT ECONOMIC ISSUE IN TERMS OF THE OVERALL ECONOMY, HAS BEEN VESTED WITH SUCH EMOTIONAL AND POLITICAL IMPORTANCE THAT IT IS WIDELY VIEWED LOCALLY AS A KEY INDICATOR OF U.S. ECONOMIC POLICY TOWARD COSTA RICA. SIMILARLY, PUBLIC ATTENTION MAY FOCUS MORE CRITICALLY THAN BEFORE ON B.O.P. OUTFLOWS TO SERVICE FOREIGN DEBT AND INVESTMENT. ACCORDINGLY, THE SETTLEMENT OF OUTSTANDING INVESTMENT ISSUES, SUCH AS THE TEXACO "EXPROPRIATION" (SEE SAN JOSE 2800), MAY BE HAMPERED. MORE GENERALLY, THE FAVORABLE FOREIGN INVESTMENT CLIMATE MAY UNDERGO SOME MODIFICATION THOUGH WE DO NOT FORESEE ANY SIGNIFICANT DETERIORATION GIVEN THE MODERATE POLITICAL ORIENTATION OF THE PRESENT ADMINISTRATION AND ITS SUCCESSOR, EITHER PLN OR THE OPPOSITION.

3. CRITICAL FACTORS:

-- THE PRICE OF COFFEE;

-- THE EXTENT OF DROUGHT DAMAGE IN THE NORTHWEST AREA OF THE COUNTRY AND RESULTING IMPACT ON AGRICULTURAL PRODUCTION;

-- DECLINE IN CACM DEXAND FOR COSTA RICAN EXPORTS (24 PERCENT OF TOTAL) AS THOSE COUNTRIES FACE B.O.P. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SAN JO 03738 02 OF 02 122145Z

PRESSURES RESULTING FROM DECLINE IN COFFEE PRICES;

-- ABILITY OF GOCR TO IMPLEMENT AND MAINTAIN APPROPRIATE RESTRICTIVE MONETARY AND FISCAL POLICIES DURING HEAT OF ELECTORAL CAMPAIGN;

-- ANY TRADE RESTRICTIVE MEASURES ADOPTED BY U.S. THAT ADVERSELY AFFECT COSTA RICAN EXPORTS. WEISSMAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 12-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SANJO03738
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770291-0817
Format: TEL
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770867/aaaaceii.tel
Line Count: 216
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0f47755b-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 STATE 180067
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 12-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1616470
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC ALERT REPORT: COSTA RICA
TAGS: ECON, XM, CS
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/0f47755b-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009